Gilbert Beebower, co-author of a 1986 paper demonstrating that investors should focus on allocating money among equities, bonds and cash, rather than pick stocks or bet on market turns, has died. He was 79.

He died on Oct. 25, according to a death notice in the New York Times. Known as Gil, he was a longtime resident of New York City and was associated with Oaks, Pennsylvania-based SEI Investments Co. (SEIC) from 1975 until his death.


“The results are striking,” the authors wrote. They found that allocation of assets “dominates” market timing and stock selection, “explaining on average 93.6 percent of the variation in total plan return.”

That finding “may well be the seminal citation on the subject of asset allocation,” John Bogle, the founder of Vanguard Group Inc., wrote in his “Common Sense on Mutual Funds” (1999). “It is surely the most quoted.”

Vanguard, based in Valley Forge, Pennsylvania, cited the study to back up one of the nine foundations of its investment philosophy: “An investor’s most important decision is selecting the mix of assets to be held in a portfolio, not selecting the individual investments themselves.”

Second Study

The study looked at market performance from 1974 to 1983. Beebower and Brinson followed up with a 1991 paper, with Brian D. Singer, looking at results over a 10-year period ending December 1987. It reached a similar conclusion: asset allocation was responsible for 91.5 percent of the variation in quarterly total returns.

By focusing on what causes variation in a fund’s returns -- not on what explains the returns themselves -- the studies prompted some confusion and a backlash.

They “are often misinterpreted and the results applied to questions that the studies never intended to answer,” Roger Ibbotson, a Yale University finance professor and former chairman of Ibbotson Associates, and Paul Kaplan, director of the Morningstar Center for Quantitative Research, wrote in a 2000 paper, also for Financial Analysts Journal. Ibbotson Associates is now part of Morningstar’s Investment Management division.

Ibbotson and Kaplan concluded that while asset allocation does determine about 90 percent of the variability of a single fund’s return over time, it explains “only about 40 percent of the variation of returns among funds.”

Taking ‘Liberties’

William Jahnke, in a 1997 paper titled “The Asset Allocation Hoax,” said financial-services companies had “taken liberties with the BHB study to market a wide range of investment products” that “rarely relate directly to the client’s long-term financial planning goals.”

Jahnke, a former head of Wells Fargo Investment Advisors, later wrote, “Where Brinson, Hood and Beebower go wrong is in choosing to analyze the variability of quarterly returns. They are analyzing how bumpy the ride is, not where the ride is going.”
Brinson, in an interview yesterday, said the early 1980s were marked by “an excessive preoccupation at looking at the micro-characteristics of a portfolio,” such as whether General Motors Corp. or Ford Motor Co. was a better investment.

Thirty years later, “I think everybody agrees that the formulation and thinking about asset allocation remains a very paramount and important notion, and that’s all that we were trying to say back in the 1980s,” Brinson said.

Three Quants

Brinson back then was president of First Chicago Investment Advisors, formerly the money-management arm of First National Bank of Chicago, and Hood worked there as an assistant vice president. Beebower was a senior vice president at SEI.

The men would see each other at conferences on quantitative analysis of investment portfolios.

To their discussions Beebower brought, crucially, access to SEI’s database of institutional clients.

“His job was basically to go out and drum up business and consult, and he had the best returns-and-holdings database on major corporate pension plans in the country,” Hood said yesterday in an interview.

Brinson recalled of Beebower: “He had a very inquisitive mind. He’d always ask good questions, and you couldn’t just give him a bland, banal answer.”

Brinson’s Foundation

Brinson founded Brinson Partners Inc., which he sold for $750 million to Swiss Bank Corp., part of what today is Zurich-based UBS AG, Switzerland’s largest bank. He is now chairman of the Brinson Foundation, established in Chicago in 2001. Hood is chief investment officer for U.S. Employee Benefit Plans at Prudential Financial Inc. in Newark, New Jersey.

Gilbert Lawrence Beebower was born on Jan. 20, 1934, in Upland, California, according to the death notice. He was the son of Laurence and Alice Beebower, according to ancestry.com records.

He graduated from California Institute of Technology in Pasadena, California, with a bachelor’s degree in applied chemistry in 1955, then served two years in the U.S. Air Force.

Before joining SEI, where he rose to executive vice president, he worked as a principal of O’Brien Associates, director of analytical services for James H. Oliphant Co. and senior associate with the Planning Research Corp., according to a 1990s biography provided by SEI.

Moving to investment banking, he joined the funds evaluation group of A.G. Becker & Co. In 1983, SEI bought A.G. Becker’s consulting division.

Beebower served on the Presidential Task Force on Market Mechanisms, known as the Brady Commission for its chairman, Nicholas Brady, which investigated the causes of the 1987 stock market crash.

To contact the reporter on this story: Laurence Arnold in Washington at larnold4@bloomberg.net

To contact the editor responsible for this story: Charles W. Stevens at cstevens@bloomberg.net

©2014 BLOOMBERG L.P. ALL RIGHTS RESERVED.